CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Introduction of Matters Pertaining to Public Employees' Retirement System Service Credit,

MEETING DATE: October 7, 1992

PREPARED BY: Joanne Narloch, Personnel Director

RECOMMENDED ACTION: Discuss Optional Provisions available through the Public Employees' Retirement System (PERS).

BACKGROUND INFORMATION: The condition of the economy in the state has compelled many agencies to search for ways to cope with lost revenues. To assist agencies with implementing various courses of action, PERS has provided some relief through the offering of optional provisions for contracting agencies.

The attached memorandum explains what the three options are and the conditions that apply to each.

FUNDING: None.

Joanne M. Narloch
Personnel Director

JMN:lra

CC9218/TXTA.04P

APPROVED: THOMAS A. PETERSON
City Manager

CC-1

MEMORANDUM

TO: Tom Peterson, City Manager

FROM: Joanne Narloch, Personnel Director

DATE September 25, 1992

RE: PERS Options

Per your direction, I have researched and prepared an analysis of our available options under PERS for the implementation of cutbacks. These options and their impact are discussed below.

Section 20818

This option is currently available to PERS contracting agencies and provides two years of additional service credit to members who retire during a designated period if a mandatory transfer, layoff, or demotion is imminent and the following requirements are met:

a. The designated period can not be less than 90 nor more than 180 days in length.

b. The contracting agency must submit to PERS the actuarial equivalent of the difference between the allowance the member will receive and the allowance the member would have received without the additional service credit within 30 days of billing; or on a two-year payment schedule subject to interest assessment at the current employer crediting rate (8.75%)

c. The contracting agency must certify that it is electing to be subject to the provisions of this section due to mandatory transfers, layoffs, and/or demotions and that these actions constitute at least one percent of the job classification, department, or organizational unit;

d. The contracting agency must certify that it is its intention at the time it becomes subject to Section 20818 to keep all vacancies, or at least one vacancy in any position in any department or organizational unit, created by retirements under this section permanently unfilled.

The eligibility for this service credit is the same as for a regular service retirement, which is at least (5) five years of service credit and 50 years of age. The expiration date on this section was recently ammended from January, 1993 to January, '1998 by Senate Bill 1285.

The estimated cost of providing this option is based on the employee's annual reportable compensation, the cost estimate factors and any additional allowances an agency may have. For the City of Lodi, this amount would be 31% - 52% of annual salary for miscellaneous employees and 49% - 60% for safety employees. In general terms, this is about 50% of an employee's annual salary.

The cost savings factor comes into play with the follow-up on filling or not filling the resulting vacancy. For example, if a vacancy was not filled, the agency would save the cost of salary, and benefits. If a position was not filled for six months. the savings would be six months salary, benefits, and additional PERS contributions. If a position was filled immediately at a lower rate of pay, we may be saving salary, but we would be in essense paying PERS For two employees.

In addition, there is a $10.00 valuation fee for each member who retires during the designated period and receives the additional service credit.

To provide this option, we would have to amend our contract with PERS, in compliance with the Government Code.

Section 20499.5

Senate Bill 1285 was recently signed into law by the Governor. This bill added Section 20499.5 to the Government Code effective July 1, 1992. This law gives contracting agencies the opportunity to preserve retirement benefits for employees who are affected by a reduction in salary or reduced working hours. In a nutshell, this law enables agencies to maintain compensation and service credit levels at the level currently provided to the employee prior to the reduction in salary and or working hours.

There would be no additional cost to the employer in offering this benefit. It would mean. however, that we would continue to make the employer and employee contributions on the basis of the employee's usual earnings prior to the reduction in salary and/or working hours. The net savings to us would be in reduced salary only.

To provide this option, we would have to file a resolution with PERS to inform the system of our intention.

Assembly Bill 75

This bill is currently on the governor's desk for signature. It would provide up to (4) four years of additional service credit to local contracting agencies. The provision would only be available until December 31, 1993. The following rules apply: The option would have to be available to all members of a membership category (i.e. police, fire. miscellaneous) and the contracting agency would have to certify that the retirements "will result in a net savings to the contracting agency."

This option provides up to four years of additional service credit to members who retire during a designated period because the best interests of the agency would be served by encouraging the retirements of local members and the following requirements are met:

a. The designated period is no more than 120 days in length;

b. The contracting agency must submit to PERS the actuarial equivalent of the difference between the allowance the member will receive and the allowance the member would have received without the additional service credit;

c. The transfer to the retirement fund shall be made in a manner and time period acceptable to the contracting agency and the board.

The estimated cost of providing this option would be double the cost of the two year option. or between 62% - 100% of the employee's annual salary, This amount could also be made on a payment schedule spread out up to two years. If a payment schedule was selected, interest would be assessed at a rate of 8.75%.

Summary

By the first of October we will know if the Governor has signed Assembly Bill 75 into law. If he has, we will be able to choose this option or Section 20818 (two-year service credit) along with or in addition to Section 20499.5 (preservation of retirement benefits). There are some advantages to each of the respective service credit options and a determination would have to be made as to which would benefit us most.